



United States
Department of
Agriculture

Farmers
Home
Administration

Washington
D.C.
20250

November 2, 1981

SUBJECT: Farm Loans - Subordination of FmHA Liens

TO: All State Directors, District Directors
and County Supervisors

The primary objective of Farmers Home Administration (FmHA) farm loan programs is to assist eligible farmers conduct successful operations. Assistance may be continued until they can graduate to other credit. It now appears that due to the unfavorable economic conditions affecting FmHA borrowers, a high percentage of our Operating (OL), Economic Emergency (EE) and Emergency (EM) loan borrowers, will need additional FmHA assistance for 1982.

Nationally, the demand for FmHA farm loans may substantially exceed the funds authorized for fiscal year 1982. The available funds must be used to the maximum extent possible to only supplement credit from other sources. In addition, we must reduce the impact of Government lending on the economy and use other credit sources whenever possible. This will be accomplished by subordinating FmHA security to assist presently indebted OL, EE and EM borrowers who have a sound basis for receiving subsequent loans to obtain the credit they need for the 1982 crop year from other sources. We recognize that certain borrowers do not qualify for FmHA subsequent loans but do have a sound basis for additional credit. These borrowers can be assisted by FmHA only through subordination.

It is the responsibility of the State Directors, District Directors and County Supervisors to fully inform other lenders of FmHA policy on subordinations and to encourage their participation. The Farm and Home Plan developed for each OL, EE and EM borrower who must have operating type credit for 1982 will be used by the borrower in contacting other credit sources in an effort to obtain the required financing. The other lenders must understand that FmHA will generally subordinate to the extent necessary for the loan to be made and that such loans will be used only for purposes set forth in the Farm and Home Plan and listed on the subordination by the Government. FmHA security, including real estate, may be subordinated, except that security for Farm Ownership, Recreation and Soil and Water loans will not be subordinated for operating expenses.

Many borrowers eligible for subsequent FmHA loans will not be able to obtain the credit they need from other sources through subordination. These borrowers will have priority over new applicants in the use of FmHA loan funds. We, therefore, expect State Directors to reserve an adequate amount of their allotted funds for subsequent loans.

EXPIRATION DATE: ~~September 30, 1982~~

FILING INSTRUCTIONS: File Preceding
FmHA Instruction 1962-A

12/31/83
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Complaints of discrimination should be sent to:
Secretary of Agriculture, Washington, D.C. 20250

When determined necessary, the county supervisor may utilize a supervised account (SBA) to control the use of the loan funds obtained through subordinations. Obviously, lenders must be advised in advance and understand the requirements when a SBA will be used.

It is extremely important that borrowers obtaining subordination credit receive adequate servicing and supervision from FmHA, the same as other borrowers. Improvements must be planned and completed and security income must be accounted for. Borrowers must understand they are to account to FmHA for security income the same as when FmHA makes the additional loan needed. Lenders will be advised that borrowers' debts to them other than the subordination credit will not be paid from security income without the approval of FmHA. Lenders will be encouraged to advise borrowers to report security income to the FmHA County Office.



CHARLES W. SHUMAN
Administrator